

# PERAC AUDIT REPORT



Pittsfield

Contributory Retirement System



JAN. 1, 2011 - DEC. 31, 2013





## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Finding and Recommendation .....	2
Statement of Ledger Assets and Liabilities.....	3
Statement of Changes in Fund Balances .....	4
Statement of Receipts.....	5
Statement of Disbursements.....	6
Investment Income .....	7
Schedule of Allocation of Investments Owned.....	8
Supplementary Investment Regulations .....	9
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions .....	10
Note 2 - Significant Accounting Policies .....	17
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System .....	21
Note 5 - Actuarial Valuation and Assumptions.....	22
Note 6 - Membership Exhibit.....	23
Note 7 – Leased Premises .....	24



# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. MCCARTHY

October 9, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Pittsfield Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

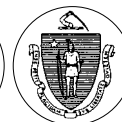
In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of the finding presented in this report.

In closing, I acknowledge the work of examiner Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





## EXPLANATION OF FINDING AND RECOMMENDATION

### **Regular Compensation:**

The school department guarantees their bus drivers 21.75 hours per week. These hours can be made up of hours spent on the normal route they drive to and from school, hours spent driving students for a field trip or athletic event (hereafter referred to as “charters”), or a combination of the two. A bus driver will frequently drive more than 21.75 hours because they sign up for charters, which are assigned by rotating through the list of volunteers. Retirement deductions are withheld from all the pay types related to these charters.

One of the characteristics of regular compensation is that it is guaranteed. (840 CMR 15.03 3(b)) If only 21.75 hours are guaranteed each week, then a bus driver’s base salary is 21.75 multiplied by their hourly rate. Since charters are paid at the same rate as the regular routes, the base salary is the first 21.75 hours in whatever combination of driving they occur. Any time beyond this does not qualify as regular compensation.

**Recommendation:** Retirement deductions must be withheld only from 21.75 hours of work. If the bus department wishes to continue separating the regular routes from the charters, they will have to use two codes for each category- one that has retirement withheld and one that does not have retirement withheld.

We recommend that the Retirement Board staff meet with the bus department payroll officer to devise the best strategy for handling this.

Since the Retirement Board staff already reviews payroll regularly, more time should be spent confirming that these members are contributing correctly.

### **Board Response:**

The Board has reviewed the issue and has met with the School Bus Department. It has now been forwarded to the Board Attorney to work with the School Bus Attorney in resolving this as quickly as possible.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2013	2012	2011
<b>Net Assets Available For Benefits:</b>			
Cash	\$7,109,949	\$5,610,341	\$4,241,051
Pooled Alternative Investment Funds	1,820,140	1,885,030	1,910,615
Pooled Real Estate Funds	1,880,627	2,130,115	2,054,189
PRIT Core Fund	98,410,533	87,132,676	78,216,086
Accounts Receivable	58,028	35,814	18,386
Accounts Payable	(761)	(1,103)	(4,703)
<b>Total</b>	<u>\$109,278,517</u>	<u>\$96,792,873</u>	<u>\$86,435,624</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$34,139,941	\$33,077,565	\$31,850,152
Annuity Reserve Fund	10,887,408	11,131,277	11,267,590
Pension Fund	0	0	0
Military Service Fund	28,945	28,154	11,138
Expense Fund	0	0	0
Pension Reserve Fund	<u>64,222,222</u>	<u>52,555,877</u>	<u>43,306,743</u>
<b>Total</b>	<u>\$109,278,517</u>	<u>\$96,792,873</u>	<u>\$86,435,624</u>



## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$30,554,680	\$11,677,899	\$0	\$11,116	\$0	\$44,963,204	\$87,206,898
Receipts	3,053,381	339,711	10,212,319	22	638,267	63,781	14,307,481
Interfund Transfers	(1,081,133)	1,047,227	1,754,148	0	0	(1,720,242)	0
Disbursements	(676,776)	(1,797,247)	(11,966,466)	0	(638,267)	0	(15,078,756)
Ending Balance (2011)	31,850,152	11,267,590	0	11,138	0	43,306,743	86,435,624
Receipts	3,216,614	336,770	10,868,013	17,016	680,425	10,707,875	25,826,714
Interfund Transfers	(1,438,393)	1,421,233	1,475,902	0	0	(1,458,741)	0
Disbursements	(550,808)	(1,894,317)	(12,343,915)	0	(680,425)	0	(15,469,465)
Ending Balance (2012)	33,077,565	11,131,277	0	28,154	0	52,555,877	96,792,873
Receipts	3,042,854	327,393	11,109,927	791	771,684	13,154,398	28,407,048
Interfund Transfers	(1,438,516)	1,433,077	1,493,491	0	0	(1,488,052)	0
Disbursements	(541,963)	(2,004,339)	(12,603,418)	0	(771,684)	0	(15,921,405)
Ending Balance (2013)	\$34,139,941	\$10,887,408	\$0	\$28,945	\$0	\$64,222,222	\$109,278,517

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,917,326	\$2,906,251	\$2,809,070
Transfers from Other Systems	16,019	44,896	152,407
Member Make Up Payments and Re-deposits	34,098	169,190	18,187
Member Payments from Rollovers	34,808	54,021	0
Investment Income Credited to Member Accounts	<u>40,604</u>	<u>42,257</u>	<u>73,717</u>
Sub Total	<u>3,042,854</u>	<u>3,216,614</u>	<u>3,053,381</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>327,393</u>	<u>336,770</u>	<u>339,711</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	81,824	92,393	77,561
Received from Commonwealth for COLA and Survivor Benefits	465,530	744,679	496,877
Pension Fund Appropriation	10,555,614	10,030,874	9,610,683
Settlement of Workers' Compensation Claims	6,000	0	0
Recovery of 91A Overearnings	<u>959</u>	<u>68</u>	<u>27,198</u>
Sub Total	<u>11,109,927</u>	<u>10,868,013</u>	<u>10,212,319</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	763	17,005	0
Investment Income Credited to the Military Service Fund	<u>28</u>	<u>11</u>	<u>22</u>
Sub Total	<u>791</u>	<u>17,016</u>	<u>22</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>771,684</u>	<u>680,425</u>	<u>638,267</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	191,486	135,460	71,525
Interest Not Refunded	602	164	7,927
Miscellaneous Income	9	332	14
Excess Investment Income (Loss)	<u>12,962,301</u>	<u>10,571,919</u>	<u>(15,685)</u>
Sub Total	<u>13,154,398</u>	<u>10,707,875</u>	<u>63,781</u>
<b>Total Receipts, Net</b>	<u>\$28,407,048</u>	<u>\$25,826,714</u>	<u>\$14,307,481</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$243,125	\$280,084	\$333,623
Transfers to Other Systems	<u>298,838</u>	<u>270,724</u>	<u>343,153</u>
Sub Total	<u>541,963</u>	<u>550,808</u>	<u>676,776</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,945,375	1,884,249	1,795,202
Option B Refunds	<u>58,964</u>	<u>10,067</u>	<u>2,045</u>
Sub Total	<u>2,004,339</u>	<u>1,894,317</u>	<u>1,797,247</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	8,138,812	7,958,383	7,568,761
Survivorship Payments	588,137	560,704	547,448
Ordinary Disability Payments	85,127	84,996	76,797
Accidental Disability Payments	2,404,854	2,471,293	2,545,445
Accidental Death Payments	685,607	651,508	643,588
Section 101 Benefits	390,402	319,977	277,100
3 (8) (c) Reimbursements to Other Systems	190,727	179,122	193,657
State Reimbursable COLA's Paid	<u>119,753</u>	<u>117,932</u>	<u>113,671</u>
Sub Total	<u>12,603,418</u>	<u>12,343,915</u>	<u>11,966,466</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	15,000	15,000
Salaries	91,721	90,506	84,795
Legal Expenses	2,002	6,572	6,600
Travel Expenses	7,472	5,812	5,685
Administrative Expenses	20,343	8,903	23,895
Education and Training	3,420	2,284	0
Furniture and Equipment	1,154	0	0
Management Fees	562,516	483,308	433,416
Consultant Fees	15,000	15,000	15,000
Rent Expenses	24,000	24,000	24,000
Service Contracts	18,192	18,192	19,376
Fiduciary Insurance	<u>10,863</u>	<u>10,849</u>	<u>10,500</u>
Sub Total	<u>771,684</u>	<u>680,425</u>	<u>638,267</u>
<b>Total Disbursements</b>	<u>\$15,921,405</u>	<u>\$15,469,465</u>	<u>\$15,078,756</u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Investment Income Received From:</b>			
Cash	\$13,452	\$13,699	\$20,459
Pooled or Mutual Funds	<u>2,931,773</u>	<u>2,853,778</u>	<u>2,582,109</u>
<b>Total Investment Income</b>	<u>2,945,225</u>	<u>2,867,477</u>	<u>2,602,568</u>
<b>Plus:</b>			
Realized Gains	4,473,537	4,564,063	2,632,259
Unrealized Gains	<u>11,724,420</u>	<u>9,374,176</u>	<u>8,436,852</u>
Sub Total	<u>16,197,957</u>	<u>13,938,239</u>	<u>11,069,110</u>
<b>Less:</b>			
Realized Loss	0	0	(44,698)
Unrealized Loss	<u>(5,041,171)</u>	<u>(5,174,334)</u>	<u>(12,590,948)</u>
Sub Total	<u>(5,041,171)</u>	<u>(5,174,334)</u>	<u>(12,635,646)</u>
<b>Net Investment Income</b>	<u>14,102,011</u>	<u>11,631,382</u>	<u>1,036,032</u>
<b>Income Required:</b>			
Annuity Savings Fund	40,604	42,257	73,717
Annuity Reserve Fund	327,393	336,770	339,711
Military Service Fund	28	11	22
Expense Fund	<u>771,684</u>	<u>680,425</u>	<u>638,267</u>
<b>Total Income Required</b>	<u>1,139,710</u>	<u>1,059,463</u>	<u>1,051,717</u>
Net Investment Income	<u>14,102,011</u>	<u>11,631,382</u>	<u>1,036,032</u>
Less: Total Income Required	<u>1,139,710</u>	<u>1,059,463</u>	<u>1,051,717</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$12,962,301</u>	<u>\$10,571,919</u>	<u>(\$15,685)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$7,109,949	6.5%
Pooled Alternative Investment Funds	1,820,140	1.7%
Pooled Real Estate Funds	1,880,627	1.7%
PRIT Core Fund	<u>98,410,533</u>	<u>90.1%</u>
<b>Grand Total</b>	<b><u>\$109,221,250</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2013, the rate of return for the investments of the Pittsfield Retirement System was 14.91%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Pittsfield Retirement System averaged 11.36%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Pittsfield Retirement System was 8.36%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Pittsfield Retirement System has ninety per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Pittsfield Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: <http://www.mass.gov/perac/investsup/Pittsfieldintsup.html>

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Pittsfield Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Pittsfield Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Membership and Creditable Service

June 16, 2011

Any individual who is permanently employed twenty (20) or more hours per week by the City of Pittsfield or any of its departments, or in any member unit of the Pittsfield Retirement System ("System") shall become a member of the System. In addition to the foregoing, an individual or elected official must earn at least \$5,000 per year in regular compensation to be eligible for membership in the System.

Members shall receive full-time credit for all membership service. Members who wish to purchase and receive credit for non-membership service will be eligible to purchase past non-membership service rendered in any member unit of the Pittsfield Retirement System and will have this service prorated based on 20 hours per week, i.e. 87 hours of service will be the equivalent of one (1) month of service.

Teachers aides, cafeteria workers and school crossing guards, who are employed for the school year (40 weeks) shall be granted one year service for each school year completed.

#### Veterans' Buy-Backs

June 19, 2003

Upon acceptance, within 180 days of receipt of notification, eligible veterans purchasing creditable service for their military service may begin payment at a time of the member choosing either a lump sum or five-year payment plan with the balance paid in full prior to retirement.

#### Creditable Service

February 6, 2003

In accepting prior service for current members of the Pittsfield Retirement System, the following provisions will apply:

I. Payment to the system must be made based on the person's contribution percentage applied to the earnings for the service granted. The board may allow payments over time plus interest.

#### II. Service

a. Prior service to the City of Pittsfield will be credited as a percentage of the present full-time equivalent of 20 hours per week.

b. Prior service to another system will be credited as a percentage of the full-time equivalent for that system.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

#### Buy-Backs

February 7, 1995

Make-up payments for re-deposits of refunds and buy-backs, as authorized by law, shall be made in a lump sum or monthly installments over a period not exceeding five years. Weekly payroll deductions will not be accepted to purchase such service.

#### Membership

July 20, 1994

1. In order to become a member of the Pittsfield Retirement System, the employee must work twenty (20) hours or more per week on a regular basis.
2. Seasonal, temporary or intermittent employees shall not become members of the Pittsfield Retirement System.
3. Teachers aides, cafeteria workers and school crossing guards, who are employed for the school year (40 weeks) shall be granted one year service for each school year completed.
4. If a member's hours drop below twenty (20) hours per week, retirement deductions shall continue to be withheld in accordance with the Board policy of: "once a member always a member". Credit will be granted proportionately based on a 20-hour workweek.
5. Temporary, seasonal and intermittent employees are ineligible for membership, however, upon becoming a member of the System the employee may buy back temporary, seasonal, intermittent time that was at least twenty hours per week.

#### Travel Regulations

October 7, 2003

The Pittsfield Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Pittsfield>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Finance Director who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Susan M. Carmel

Appointed Member: Edward M. Reilly, Chairman      Until a successor is appointed

Elected Member: Timothy A. Hannigan      Term Expires: 05/01/17

Elected Member: *Election Pending*      Term Expires:

Appointed Member: James J. Mooney      Term Expires: 02/20/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Fidelity insurance is designed to cover specific intentional acts such as theft, fraud or embezzlement committed by employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. Statutorily required coverage is provided by the current fidelity insurance policy of \$1,000,000 with a \$10,000 deductible issued through Travelers Insurance Company.

Fiduciary liability insurance covers the individual Retirement Board members, both past and present, from claims for mismanagement brought by plan members, employers, and/or retirees. The policy requires the insured to exercise best judgment and covers alleged, unintentional breaches of fiduciary responsibilities. The Pittsfield Retirement Board has coverage to a limit of \$50,000,000 with a \$50,000 deductible provided under a master MACRS sponsored policy issued through a layered program with Travelers, National Union Fire, and State National Insurance.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2013.

The actuarial liability for active members was	\$96,183,050
The actuarial liability for vested terminated members was	2,479,676
The actuarial liability for non-vested terminated members was	689,871
The actuarial liability for retired members was	<u>125,423,073</u>
The total actuarial liability was	\$224,775,670
System assets as of that date were (actuarial value)	<u>94,098,792</u>
The unfunded actuarial liability was	<u>\$130,676,878</u>
 The ratio of system's assets to total actuarial liability was	 41.9%
As of that date the total covered employee payroll was	\$32,265,409

The normal cost for employees on that date was 8.4% of payroll

The normal cost for the employer was 6.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Varies by group and service

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2013	\$94,098,792	\$224,775,670	\$130,676,878	41.9%	\$32,265,409	405.0%
1/1/2011	\$95,909,345	\$206,788,049	\$110,878,704	46.4%	\$31,152,921	355.9%
1/1/2009	\$80,570,593	\$186,547,428	\$105,976,835	43.2%	\$31,775,932	333.5%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Retirement in Past Years</b>										
Superannuation	17	24	14	33	17	15	35	19	25	28
Ordinary Disability	1	0	0	0	0	0	0	0	1	0
Accidental Disability	5	3	3	1	0	3	1	2	0	1
<b>Total Retirements</b>	23	27	17	34	17	18	36	21	26	29
 Total Retirees, Beneficiaries and Survivors	732	738	734	753	741	725	775	756	763	757
 Total Active Members	990	971	957	959	975	937	938	961	975	924
<b>Pension Payments</b>										
Superannuation	\$5,350,572	\$5,760,839	\$6,022,631	\$6,382,757	\$6,748,473	\$6,827,793	\$7,184,009	\$7,568,761	\$7,958,383	\$8,138,812
Survivor/Beneficiary Payments	366,469	457,969	451,059	467,107	493,665	491,702	505,431	547,448	560,704	588,137
Ordinary Disability	89,557	101,963	104,732	95,856	97,102	88,351	74,980	76,797	84,996	85,127
Accidental Disability	2,363,457	2,571,442	2,955,595	2,656,060	2,530,593	2,562,882	2,585,229	2,545,445	2,471,293	2,404,854
Other	525,826	889,684	934,306	1,067,331	994,027	1,037,291	1,092,407	1,228,015	1,268,539	1,386,489
<b>Total Payments for Year</b>	<u>\$8,695,881</u>	<u>\$9,781,897</u>	<u>\$10,468,323</u>	<u>\$10,669,111</u>	<u>\$10,863,860</u>	<u>\$11,008,019</u>	<u>\$11,442,056</u>	<u>\$11,966,466</u>	<u>\$12,343,915</u>	<u>\$12,603,418</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The Pittsfield Retirement Board leases approximately 2,400 square feet of space for its offices located at 114 Fenn Street, Pittsfield, MA. They signed an initial 7-year lease term (\$10.00 per sq ft) which will expire September 30, 2015. The landlord is Pasquale A. Arace, Gerardo L. Arace, and Dario B. Arace.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2013:

<u>For the year ending:</u>	<u>Annual Rent</u>
2014	\$24,000.00 + CPI increase
2015	\$18,000.00 + CPI increase
Total future minimum lease payments required	<u>\$42,000.00</u>





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